

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-08 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 OMB-01 PA-01 PRS-01 PM-04

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AMEMBASSY CAIRO

AMEMBASSY TUNIS

C O N F I D E N T I A L EC BRUSSELS 650

E.O. 11652: GDS

TAGS: EEC, PFOR

SUBJECT: EURO-ARAB DIALOGUE - ECONOMIC ASPECTS

REF EC BRUSSELS 544

1. SUMMARY. ACCORDING TO COMMISSION OFFICIALS, AND OFFICER FROM TUNISIAN MISSION TO EC, MAJOR ECONOMIC/TRADE ITEMS WHICH WILL BE DISCUSSED AT EURO-ARAB DIALOGUE'S GENERAL COMMISSION MEETING IN TUNIS FEB 10-12 ARE FINANCING OF JOING PROJECTS AND A CODE ON INVESTMENT GUARANTEES. TWO SIDES MAY ALSO DISCUSS THE POSSIBILITY OF CONCLUDING ADDITIONAL TRADE AGREEMENTS BETWEEN EC AND ARAB COUNTRIES WITH WHICH EC NOW HAS NO AGREEMENTS. NO ONE EXPECTS DRAMATIC RESULTS IN TUNIS; AIM IS TO ACHIEVE SUFFICIENT PROGRESS IN ONE OR TWO AREAS TO KEEP THE DIALOGUE INCHING ALONG. END SUMMARY.

2. JOINT FUNDING OF DIALOGUE PROJECTS

EC COMMISSION OFFICIALS - MEYER AND EWIG (REF A) AND ANDRESEN, WHO HAS RESPONSIBILITY FOR MIDDLE EAST IN DG VIII (DEVELOPMENT) CONFIDENTIAL

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- INDICATE THAT, AS SEEN BY EC, ONE OF MAIN SUBSTANTIVE ISSUES TO BE DISCUSSED AT TUNIS IS FUNDING OF EC-ARAB PROJECTS NOW BEING CONSIDERED IN AGRICULTURAL DEVELOPMENT AND OTHE WORKING GROUPS (EC --488). COMMISSION OFFICIALS SAID EC TOLD ARABS THEY MUST COME TO TUNIS PREPARED TO AGREE ON JOINT FINANCING OF FEASIBILITY STUDIES AT LEAST, IF WORKING GROUPS ARE TO PROCEED WITH MEANINGFUL WORK AND DIALOGUE IS NOT TO STALL. ACCORDING TO EWIG, ARABS HAVE

BEEN CAGEY UNTIL NOW, IMPLYING THEY MIGHT NOT BE INTERESTED IN PONYING UP UNTIL THEY LEARN (A) HOW MUCH MONEY EC IS PREAPRED TO PUT UP, AND (B) WHETHER EC WILL GO FARTHER THAN IT HAS TO DATE IN SUPPORTING ARAB DESIRES FOR MIDDLE EAST SETTLEMENT (REF A). ANDRESEN, HOWEVER, SAID THAT SINCE ARAB FOREIGN MINISTERS MEETING IN CAIRO LAST WEEKEND, EC HAS RECEIVED INDICATIONS THAT ARABS WILL AGREE TO MAKE INITIAL CONTRIBUTION TO FUNDING JOINT PROJECTS, POSSIBLY TO THE EXTENT OF \$15 MILLION. EC SIDE TENTATIVELY AGREED AT JAN 18 COUNCIL MEETING THAT EC WILL CONTRIBUTE TO DIALOGUE PROJECTS OUT OF REGULAR COMMUNITY BUDGET. (NO FIGURE WAS MENTIONED, BUT COMMISSION HAS PROPOSED TO COUNCIL AN INITIAL COMMUNITY CONTRIBUTION OF \$10 MILLION.)

3 PROTECTION OF INVESTMENTS

SOURCES WE CONSULTED AGREE THAT FINANCIAL WORKING GROUP'S SUB-GROUP ON INVESTMENT GUARANTEES (EC BRUSSELS 11372 AND 12639) HAS CONTINUED TO MAKE PROGRESS IN DEVELOPING A CODE FOR THE PROTECTION OF THE INVESTMENTS BY ONE SIDE IN THE GEOGRAPHIC AREA OF THE OTHER AGAINST CERTAIN TYPES OF RISKS. HOWEVER, THERE IS SOME DISAGREEMENT ON HOW MUCH ADDITIONAL PROGRESS CAN BE ACHIEVED AT TUNIS. MEETINGS IN BRUSSELS LAST WEEK OF THE FINANCIAL WORKING GROUP AND THE INVESTMENTS SUBGROUP REAFFIRMED THE RESPECTIVE EC AND ARAB POSITIONS: THE EC IS WILLING TO AGREE TO A CODE PROVIDING "MINIMUM GUARANTEES" REGARDING EXPROPRIATION, ARBITRATION IN THE EVENT OF DISPUTES, AND REPATRIATION OF FUNDS. THE ARABS CONTINUE TO INSIST AS WELL ON GUARANTEES AGAINST SUCH MONETARY RISKS AS FLUCTUATING EXCHANGE RATES AND INFLATION -- GUARANTEES WHICH THE EC SAYS IT CANNOT AGREE TO. EWING THOUGHT THAT

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GIVEN THE INTEREST OF RICH ARAB STATE (PARTICULARLY SAUDI ARABIA) IN GUARANTEES AGAINST EXPROPRIATION, EVEN WITHOUT EC ACQUIESCENCE IN GUARANTEES AGAINST MONETARY RISKS, THINGS MIGHT DEVELOP SUFFICIENTLY IN TUNIS TO WARRANT THE INITIALLING OF AN AGREEMENT ON THE "MINIMUM GUARANTEES" REFERRED TO ABOVE. HE SAID SUCH AN AGREEMENT COULD BE IN THE FORM OF A CONVENTION BINDING ON ALL THE MEMBERS OF THE DIALOGUE, OR, MORE LIKELY, SERVE AS A FRAMEWORK AGREEMENT FOR THE SUBSEQUENT NEGOTIATION OF BILATERAL PACTS. HOWEVER, ANDRESEN AND AN OFFICER FROM THE TUNISIAN MISSION THOUGHT IT UNLIKELY A CONVENTION OF EITHER TYPE COULD BE DRAFTED AND SIGNED IN TUNIS. THEY SAID THAT NO AD REFERENDUM DRAFT EXISTS, THAT THE PAPERS BEING PREPARED FOR THE TUNIS MEETING WILL SIMPLY LAY OUT THE RESPECTIVE POSITIONS OF THE TWO SIDES. IT WILL THEN BE UP TO THE GENERAL COMMISSION TO DEBATE THE ISSUE AND PROVIDE GUIDELINES FOR THE WORKING GROUP/SUB-GROUP'S FURTHER DELIBERATIONS.

4. TRADE

EC BRUSSELS 11132 REPORTED THAT BECAUSE OF THE ARABS' ADAMANT DEMAND FOR A PREFERENTIAL AGREEMENT AND THE EC'S

PERSISTENT REFUSAL, THE TRADE WORKING GROUP REGISTERED NO PROGRESS AND HAS REFERRED THE ISSUE TO THE GENERAL COMMISSION. THAT IS WHERE THE MATTER STILL STANDS, COMMISSION OFFICIALS SAY THE EC WILL CONTINUE TO REFUSE A PREFERENTIAL AGREEMENT, BUT IS "CONSIDERING" WHETHER TO OFFER AT TUNIS NON-PREFERENTIAL AGREEMENTS TO THOSE ARAB COUNTRIES NOT ALEADY INCLUDED IN TRADE AGREEMENTS WITH THE EC (E.G., LOME, MASHREK). THEY ALSO SAID THAT IF THE ARABS SHOW INTEREST, THE COMMUNITY MAY OFFER TECHNICAL ASSISTANCE IN SETTING UP A TRADE CENTER TO DEVELOP THE ARABS' TRADE WITH THE THRID WORLD. ACCORDING TO ANDRESEN, THE ARABS WOULD HAVE TO BE WILLING TO FUND AND OPERATE SUCH A CENTER.

5. EXPECTATIONS

EC OFFICIALS AND TUNISIAN MISSION OFFICER AGREED THAT ONE CAN REALISTICALLY EXPECT ONLY MODEST PROGRESS ON ECONOMIC/TRADE ISSUES AT TUNIS. THEY SUGGESTED THAT THE MAIN EFFORT WILL BE CONFIDENTIAL

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DIRECTED TOWARD GETTING FROM THE GENERAL COMMISSION SUFFICIENTLY EXPLICIT GUIDELINES FOR THE RESPECTIVE WORKING GROUPS SO THAT SUBSEQUENT TO THE TUNIS MEETING THE WORKING GROUPS CAN ADVANCE THEIR WORK FURTHER AND THUS KEEP THE DIALOGUE FROM STALLING. HINTON

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